

Company No.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

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Company No.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

CONTENTS	PAGES
DIRECTORS' REPORT	1 - 17
STATEMENT OF FINANCIAL POSITION	18
INCOME STATEMENT	19
STATEMENT OF COMPREHENSIVE INCOME	20
STATEMENT OF CHANGES IN EQUITY	21
STATEMENT OF CASH FLOWS	22
NOTES TO THE FINANCIAL STATEMENTS	23 - 66
STATEMENT BY DIRECTORS	67
STATUTORY DECLARATION	68
INDEPENDENT AUDITORS' REPORT	69 - 70

Company No.

911666

D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Bank for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and the provision of such related financial services.

There have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

The financial results of the Bank for the financial year are as follows:

	RM'000
Loss for the financial year	<u>(2,943)</u>

RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements and notes to the financial statements.

DIVIDENDS

No dividend was paid or declared by the Bank since the end of the last financial year. The Directors do not recommend any dividend to be paid for the financial year ended 31 December 2012.

BAD AND DOUBTFUL DEBTS AND FINANCING

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for bad and doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Bank inadequate to any substantial extent.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

Before the financial statements of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Bank, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the exiting methods of valuation of assets and liabilities in the Bank's financial statements misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Bank that has arisen since the end of financial year other than in the ordinary course of the banking business.

No contingent liability or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank that would render any amount stated in the financial statements misleading.

ISSUE OF SHARES

Details of the increase in issued and paid up ordinary share capital is as disclosed in Note 16 of the financial statements.

Company No.

911666

D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2012 has not been substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the financial performance of the Bank for the current financial year in which this report is made.

DIRECTORS OF THE BANK

The names of Directors of the Bank in office during the financial period since the date of the last report:

Mairpady Narendra

Datuk Bhupatrai a/l Mansukhlal Premji

Gopala Krishnan a/l G P Gopalan

Kalanjiam Purushothman Vairavan

Banavar Anantharamaiah Prabhakar

Mangalore Devadas Mallya

(appointed on 22 November 2012)

(resigned on 28 December 2012)

DIRECTORS' INTERESTS

According to the register of Director's Shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, none of the Directors in office at the end of the financial year held any interests in shares in or debentures of the Bank.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than Director's remuneration as disclosed in Note 21 of the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Bank is a party with the object or objects of enabling Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BUSINESS PLAN AND STRATEGY

2012 Results

The Bank commenced its banking operations on 11 July, 2012 and recorded a net loss amounting to RM 2.943 million for the financial year ended 31 December, 2012. The loss is due to substantial expenses incurred in the set-up of the Bank. As at end of December 2012, deposits from customers were RM 44.20 million. There were no loans and advances outstanding as at 31 December 2012.

Business Outlook for financial year 2013

The Malaysian economy is expected to grow at a healthy pace of 4% to 5% in 2013 which is largely to be driven by resilient and strong domestic demand and further supported by the Government's Economic Transformation Programme (ETP). Against this backdrop and coupled with the increasing trade flows between India and Malaysia, there will be ample opportunities for the Bank to grow its business volume particularly in trade financing and business banking segment.

In view of this, the Board is confident that the Bank will be able to increase its business volume within its targeted market segments in 2013.

STATEMENT OF CORPORATE GOVERNANCE

The Bank is committed to high standards of corporate governance and strives to continually improve the governance process and structures and in compliance with BNM Revised Guidelines on Corporate Governance for Licensed Institutions issued by BNM in December 2010. The Board is pleased to set out below how the Bank has adhered to the BNM Guidelines during the financial year ended 31 December 2012.

THE BOARD OF DIRECTORS

Board's Duties and Responsibilities

The Board of Directors ("the Board") is led by the Chairman, Mr. Mangalore Devadas Mallya, who is a Non-Independent Non-Executive Director.

The role of the Chairman and CEO are separated to ensure a balance of power and authority, such that no one individual has unfettered powers of decisions.

There are matters specifically reserved for the Board's decision to ensure that the direction and control of the Bank are firmly in hand. The day to day conduct of the Bank's business is delegated to the Managing Director/CEO and the full time employees of the Bank subject to the authority given.

The objective of the Board is to plan, supervise, identify/manage risks and provide direction and guidance to the management of the Bank to successfully achieve the Bank's goal.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

THE BOARD OF DIRECTORS (CONTINUED)

Board duties and responsibilities of the Board include:

- (i) Review and adopt long-term and short-term strategic plans for the Bank;
- (ii) Oversee the conduct of the Bank's business to evaluate whether the business is being properly managed;
- (iii) Establish comprehensive risk management policies, processes and infrastructure to manage the various types of risks, and
- (iv) Review the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board also assumes various functions and responsibilities that are required of them by Bank Negara Malaysia ("BNM"), as specified in guidelines and directives issued by BNM from time to time.

Board Composition

The Board of the Bank consists of six (6) members, of whom one (1) is the Managing Director/Chief Executive Officer (CEO), three (3) are Non-Independent Non-Executive Directors and two (2) are Independent Non-Executive Directors.

The Board consists of individuals of calibre, with credibility, integrity and the necessary skills, experiences as well as qualification to supervise the management of the business and affairs of the Bank. The Board, as a whole, provides a mixture of core competencies including banking, finance, accounting, economics and business management for effective functioning and discharging of the responsibilities of the Board.

The presence of the two (2) Independent Non-Executive Directors provides the necessary checks and balances in the functioning of the Board and facilitates the Board in exercising objective judgement in decision making.

Appointment to the Board

The appointment and re-appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Banking and Financial Institution Act, 1989 (BAFIA) and in compliance with the guidelines issued by BNM.

In accordance with the Bank's Articles of Association, all newly appointed Directors are subjected to re-election by shareholders at the next Annual General Meeting. The Articles further provides for one-third of the remaining Directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM's Guidelines, re-appointment or re-election of Directors are made with the prior approval from BNM.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

PROFILE OF DIRECTORS

A brief profile of each of the Directors is as follows:

(i) Mangalore Devadas Mallya

Mr. Mangalore Devadas Mallya was appointed to the Board as a Non-Independent Non-Executive Director on 9 November 2011 and resigned from the Board on 28 December 2012. He was the Chairman and Managing Director of Bank of Baroda since 2008 and retired in November 2012. Prior to this, he was Chairman and Managing Director of Bank of Maharashtra. He also served as Executive Director of Oriental Bank of Commerce, where he was responsible for the merger of Global Trust Bank with Oriental Bank. He commenced his banking career at Corporation Bank in August 1976. He has 30 years of experience within the banking industry, and served on various banking association committees including the Indian Banks' Association and National Institute of Bank Management. He holds a Bachelor of Engineering degree from Karnataka Regional Engineering College.

(ii) Mairpady Narendra

Mr. Mairpady Narendra was appointed to the Board on 9 November 2011 as a Non-Independent Non-Executive Director. He is currently the Chairman and Managing Director of Indian Overseas Bank where he was appointed on 1 November, 2010. He joined Corporation Bank as an officer trainee in 1975 and was in the Bank till 5 November 2008. He was appointed by Government of India as Executive Director, Bank of India, on 6 November 2008 and held this position, till his present assignment at Indian Overseas Bank.

A Graduate in Commerce and Law from the University of Mysore, Mr. Mairpady Narendra has 33 years of banking experience and has served in senior management roles in Credit, International Banking, Risk Management and Operations.

(iii) Banavar Anantharamaiah Prabhakar

Mr. Banavar Anantharamaiah Prabhakar was appointed to the Board on 22 November 2012 as a Non-Independent Non-Executive Director. He is currently the Chairman and Managing Director of Andhra Bank since 2 January 2012. Prior to joining Andhra Bank, he was Executive Director of Bank of India from October 2008 to December 2011. Before that he was General Manager of Bank of Baroda.

A Graduate in Commerce and Chartered Accountant, Mr. Banavar Anantharamaiah Prabhakar started his banking career with Bank of Baroda in 1977 as a Direct Recruit Officer. He has wide exposure to areas of Corporate Credit, Forex/Treasury and International Banking with a stint in United Kingdom as General Manager and Chief Executive Officer of Bank of Baroda from April 2004 to January 2008.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

PROFILE OF DIRECTORS (CONTINUED)

(iv) Datuk Bhupatrai a/l Mansukhlal Premji

Datuk Bhupatrai a/l Mansukhlal Premji was appointed to the Board as an Independent Non- Executive Director on 9 November 2011. He started his career with the Malaysian Administrative and Diplomatic Service in 1975, initially serving as Assistant Director in the Ministry Of Trade and Industry after which he served as Principal Assistant Secretary of the Ministry of Finance from 1978 to 1987. He then joined the United Asian Bank in 1988. He has 17 years' experience in Banking particularly in credit, banking operations, risk management, human resources and corporate services and has served as Assistant General Manager in Branch Operations Division and as Deputy General Manager in Human Resources and Branch Operations with the United Asian Bank. Following the merger of United Asian Bank with Bank of Commerce, he served as Senior Vice President in charge of various portfolios. His last position before his retirement in February 2005 was as the Senior Vice President of Corporate Services at Bumiputra Commerce Bank. He is a graduate with a Bachelor of Economics (Honours) degree from the University of Malaya.

(v) Gopala Krishnan a/l G P Gopalan

Mr. Gopala Krishnan a/l G P Gopalan was appointed to the Board as an Independent Non-Executive Director on 9 November 2011. He has 37 years of experience in banking and financial services and has held various senior management positions in Corporate and Commercial Banking, International Banking, Treasury and Investment Banking. His last position before his retirement in 2009 was with EON Bank Berhad where he served as the Deputy Chief Executive Officer since 1999. He has also served as Head of Treasury with the Bank of Nova Scotia Malaysia Berhad and prior to that as Senior Manager at United Asian Bank. He has an Advanced Diploma in Business Management from the West Glamorgan Institute, United Kingdom.

(vi) Kalanjiam Purushothman Vairavan

Mr. Kalanjiam Purushothman Vairavan was appointed to the Board on the 11 of April, 2011. He has 33 years of experience in all areas of Banking, namely, Branch Operations, Credit, Risk Management. Before joining India International Bank Malaysia, he was the Deputy General Manager at the Corporate Financial Services Branch at Hyderabad of Bank of Baroda. Prior to that, he was Assistant General Manager and Head of Credit at Bank of Baroda South Zonal Office in Chennai. He has also served as a Chief Manager and Head of Risk Management Department at Bank of Baroda Zonal Office in Kolkata and as Branch Manager in various Regions in India. He has a Bachelor of General Law degree from the University of Madurai and a Master of Commerce from University of Madras. He is also a Certified Associate of the Indian Institute of Bankers.

INDIA INTERNATIONAL BANK(MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

FREQUENCY AND CONDUCT OF MEETING

The Board meets on a scheduled basis, at least once in every 2 months, to review the performance and managements reports and to deliberate various matters which require guidance and approval.

During the financial year ended 31 December 2012, the Board held four meetings. Details of each Director's attendance at Board Meetings for the financial year are as follows:-

<u>No.</u>	<u>Name Of Directors</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Mangalore Devadas Mallya	Non-Executive Chairman	3/4
2	Mr. Mairpady Narendra	Non-Independent Non - Executive Director	4/4
3	Mr. Banavar Anantharamaiah Prabhakar	Non-Independent Non - Executive Director	1/4
4	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	4/4
5	Mr. Gopala Krishnan a/l G P Gopalan	Independent Non-Executive Director	3/4
6	Mr. Kalanjiam Purushothman Vairavan	Managing Director/CEO	4/4

BOARD COMMITTEES

The Board has established specialised Board Committees to assist to carry out its responsibilities more effectively and provide oversight over the Bank's operations. These committees are:

- (i) Nomination Committee;
- (ii) Remuneration Committee;
- (iii) Risk Management Committee; and
- (iv) Audit Committee.

These Committees operate under clearly defined terms of reference approved by the Board and the Board receives reports of their proceedings and deliberations. These committees have the authority to examine certain issues and report back to the Board with their recommendations. Ultimately, the Board is responsible for making the final decision.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(i) Nomination Committee

During the financial year, the Nomination Committee held three meetings. The composition of the Nomination Committee and attendance of the members at the meetings held during the financial year are as follows:

<u>No.</u>	<u>Name Of Directors</u>	<u>Designation</u>	<u>Attendance</u>
1	Datuk Bhupatrai a/l Mansukhlal Premji (Chairman)	Independent Non-Executive Director	3/3
2	Mr. Gopala Krishnan a/l G P Gopalan	Independent Non-Executive Director	2/3
3	Mr. Mangalore Devadas Mallya	Non-Executive Chairman	2/3
4	Mr. Mairpady Narendra	Non-Independent Non-Executive Director	3/3
5	Mr. Banavar Anantharamaiah Prabhakar	Non-Independent Non-Executive Director	1/3

Terms of Reference

The Nomination Committee is established to provide a formal and transparent procedure for the appointment of Directors and CEO as well as the assessment of effectiveness of individual Directors, Board as a whole and performance of CEO and key Senior Management Officers.

The primary function of the Nomination Committee includes the following:

- (a) Establish the minimum requirements for the Board in terms of required mix of skills, experience, qualification and other core competencies.
- (b) Establish minimum requirements for the CEO.
- (c) Recommends and assesses the nominees for directorship, Board Committee members and the CEO.
- (d) Oversees through an annual review of overall composition of the Board in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(i) Nomination Committee (Continued)

Terms of Reference (Continued)

- (e) Establish a mechanism for the annual assessment on the effectiveness of the Board as a whole and the contribution of each Directors to the effectiveness of the Board, the contribution of the Board's various Committees and the performance of the CEO and other key Senior Management Officers; and
- (f) Assesses on an annual basis that individual Directors and key Senior Management Officers are not disqualified under Section 56 of the Banking and Financial Institution Act, 1989 and continue to comply with the standard for "fit and proper" criteria as approved by the Board.

(ii) Remuneration Committee

During the financial year, the Remuneration Committee held one (1) meeting. The composition of the Remuneration Committee and attendance of the members at the meetings held during the financial year are as follows:-

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr. Gopala Krishnan a/l G P Gopalan (Chairman)	Independent Non-Executive Director	1/1
2	Mr. Mangalore Devadas Mallya	Non-Executive Chairman	1/1
3	Mr. Mairpady Narendra	Non-Independent Non-Executive Director	1/1
4	Mr. Banavar Anantharamaiah Prabhakar	Non-Independent Non-Executive Director	0/1

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(ii) Remuneration Committee (Continued)

Terms of Reference

The Remuneration Committee is established to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and key Senior Management Officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

The primary functions of the Remuneration Committee include the following:

- (a) Recommends a framework of remuneration for Directors, the CEO and other key Senior Management Officers for the Board's approval;
- (b) Review the remuneration package of the Directors, CEO and key Senior Management Officers; and
- (c) Recommends to the Board the proposed overall salary increments and overall annual bonus of the staff.

(iii) Risk Management Committee

During the financial year, the Risk Management Committee held one (1) meeting. The composition of Risk Management Committee and attendance of the members at the meetings held during financial year are as follows:-

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Mr Gopala Krishnan a/l G P Gopalan (Chairman)	Independent Non-Executive Director	0/1
2	Mr. Mangalore Devadas Mallya	Non-Executive Chairman	0/1
3	Mr. Banavar Anantharamaiah Prabhakar	Non-Independent Non-Executive Director	1/1
5	Datuk Bhupatrai a/l Mansukhlal Premji	Independent Non-Executive Director	1/1

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iii) Risk Management Committee (Continued)

Terms of Reference

The Risk Management Committee is established to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning.

The primary functions of the Risk Management Committee include the following:

- (a) Reviews and recommends risk management strategies, policies and risk tolerance for the Board's approval;
- (b) Reviews and assesses adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and extent to which these are operating effectively; and
- (c) Reviews management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Risk Management Framework

The Bank recognises that risk management is a vital part of the Bank's operations and is critical to achieve continuous growth, profitability and sustainability. The Bank has in placed a Risk Management Framework that oversees the management of different risk areas, and the key business risks are credit risk, operational risk, liquidity risk and market risk. The underlying standard adopted in the Framework is consistent with BASEL 11 adopted by BNM.

The Board has established Board Risk Management Committee with the primary objective of overseeing risk management activities of the Bank and recommending appropriate risk management policies and risk measurement parameters.

The guiding risk management principles with which the Bank operates are as follows:

- (a) Clear separation of risk taking business lines and risk supervising unit.
- (b) Identification and coverage of all relevant risk types in risk management.
- (c) Measure risk in order to monitor and control them thereby enabling the implementation of more effective risk based strategy and aid in decision making and management of portfolio.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iii) Risk Management Committee (Continued)

Risk Management Framework (Continued)

- (d) Development of strong risk culture and continuous improvement of risk management skills throughout the Bank.

Three Lines of Defence concept is used as the primary means to establish and construct roles, responsibilities and accountabilities for decision making, risk and control to achieve effective risk management.

1st Line of Defence: Risk owner or business units, being responsible for day-to-day risk management.

2nd Line of Defence: Risk Management Department, being responsible to provide an oversight over process and risk by implementing policies and procedures.

3rd Line of Defence: Internal Audit, being responsible to provide independent, objective assurance and consulting activities in an effort to evaluate and improve the effectiveness of risk management, control and governance.

(iv) Audit Committee

During the financial year, the Audit Committee held two (2) meetings.

The composition of Audit Committee and attendance of the members at the meetings held during financial year are as follows:-

<u>No.</u>	<u>Committee Member</u>	<u>Designation</u>	<u>Attendance</u>
1	Datuk Bhupatrai a/l Mansukhlal Premji (Chairman)	Independent Non-Executive Director	2/2
2	Mr. Gopala Krishnan a/l G P Gopalan	Independent Non-Executive Director	1/2
3	Mr. Mairpady Narendra	Non-Independent Non - Executive Director	2/2

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iv) Audit Committee

Terms of Reference

The Audit Committee is established to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process and the system of internal control. Their roles and responsibilities include:

- (a) Review of the effectiveness of the Bank's internal control system and risk management processes;
- (b) Oversight of the functions of the Internal Audit Department to ensure it complies with BNM guidelines on Internal Audit Function of Licensed Institutions;
- (c) Review the adequacy of the annual audit plan and all major changes to the plan to ensure that there are no unjustified restrictions or limitations made;
- (d) Review of the scope of the internal audit program, internal audit findings and recommend actions to be taken by management;
- (e) Review of significant accounting and reporting issues, including complex or unusual transactions and highly judgemental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- (f) Review of interim financial reports, the annual financial statements and consider whether they are complete, consistent with information known to Committee members and reflect appropriate accounting principles;
- (g) Selection of external auditors for appointment by the Board;
- (h) Assessment of objectivity, performance and independence of external auditors;
- (i) Review of the external auditors' proposed audit scope and approach;
- (j) Review of the external auditors' management letter and managements' response;
- (k) Approval of the provision of non-audit service by the external auditors; and
- (l) Review any related party transactions that may arise within the Bank.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

(iv) **Audit Committee (Continued)**

Audit Functions

The Audit Department (AD) plays a key role in assisting the Audit Committee to oversee that the management has in place a sound system of risk management, internal controls and governance processes. This is achieved through the review of the recommendations for improvements to the current risk management, internal control systems and governance processes to provide reasonable assurance that such systems continue to operate satisfactorily and effectively. In addition, reviews on compliance with established policies, procedures, guidelines and statutory requirements are also carried out.

The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the CEO. The scope of the internal audit covers the audit of all units and operations. It is the responsibility of the AD to provide the Audit Committee with independent and objective reports on the state of risk management, internal controls and governance processes. The audit reports which provide the results of audits conducted in terms of the risk management of the units, effectiveness of internal controls, compliance with internal and regulatory requirements and overall management of the units are submitted to the Audit Committee for their review.

The Audit Committee reviews and approves the AD's annual audit plan and human resources requirements to ensure that the function is adequately resourced with competent and proficient internal auditors. The internal audit functions were performed in accordance with the Audit Charter and BNM Guidelines on Internal Audit Function of Licensed Institutions.

MANAGEMENT INFORMATION

All the Directors have reviewed the Board reports prior to the Board Meetings. Information and materials, duly endorsed by the CEO and the relevant functional heads that are important to the Directors understanding of the agenda items and related topics are distributed in advance prior to the meeting. The Board reports include among others, the monthly performance of the Bank, minutes of the various Board and Management Committees, compliance reports and other prevailing regulatory developments as well as economic and business environment updates.

These reports are issued timely to enable the Directors to obtain further explanation, where necessary, in order to be briefed properly before the meeting.

Company No.

911666

D

INDIA INTERNATIONAL BANK MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

RELATED PARTY TRANSACTIONS

During the financial year ended 31 December 2012, the Bank entered into transactions with the Bank's shareholders namely Bank of Baroda, Indian Overseas Bank and Andhra Bank in the normal course of business. The details and nature of the transactions are disclosed in Note 24 of the financial statements.

BANK RATINGS

The Bank has not been rated by any external agencies.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Bank during the financial year.

AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with their resolution dated 4 June 2013.

KALANJAM PURUSHOTHMAN VAIRAVAN
DIRECTOR

DATUK BHUPATRAI M PREMJI
DIRECTOR

MAIRPADY NARENDRA
DIRECTOR

Kuala Lumpur
4 June 2013

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	<u>Note</u>	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
ASSETS				
Cash and short-term funds	4	237,359	7,037	4
Deposits and placements with banks and other financial institutions	5	101,308	10,000	-
Financial investments available-for-sale	6	-	-	-
Financial investments held-to-maturity	7	-	-	-
Loans, advances and financing	8	-	-	-
Other assets	9	266	3,865	3
Statutory deposits with Bank Negara Malaysia	10	100	-	-
Plant and equipment	11	5,423	1,315	-
Intangible assets	12	10,525	-	-
TOTAL ASSETS		<u>354,981</u>	<u>22,217</u>	<u>7</u>
LIABILITIES AND EQUITY				
Deposits from customers	13	44,200	-	-
Deposits and placements of banks and other financial institutions		-	-	-
Bills and acceptances payable		-	-	-
Other liabilities	14	5,027	119	86
TOTAL LIABILITIES		<u>49,227</u>	<u>119</u>	<u>86</u>
Share capital	16	310,000	23,401	1
Accumulated losses		(4,246)	(1,303)	(80)
TOTAL EQUITY OF SHAREHOLDERS		<u>305,754</u>	<u>22,098</u>	<u>(79)</u>
TOTAL LIABILITIES AND EQUITY		<u>354,981</u>	<u>22,217</u>	<u>7</u>
COMMITMENTS AND CONTIGENCIES	23	<u>1,604</u>	<u>-</u>	<u>-</u>

The accounting policies on pages 23 to 35 and the notes on pages 36 to 66 form an integral part of these financial statements.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<u>Note</u>	<u>2012</u> RM'000	<u>2011</u> RM'000
Interest income	17	4,922	-
Interest expense	18	(344)	-
Net interest income		<u>4,578</u>	<u>-</u>
Other operating income	19	40	-
Net income		<u>4,618</u>	<u>-</u>
Other operating expenses	20	(7,561)	(1,223)
Loss before tax		<u>(2,943)</u>	<u>(1,223)</u>
Taxation	22	-	-
LOSS FOR THE FINANCIAL YEAR		<u><u>(2,943)</u></u>	<u><u>(1,223)</u></u>

The accounting policies on pages 23 to 35 and the notes on pages 36 to 66 form an integral part of these financial statements.

Company No.

911666

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<u>2012</u> RM'000	<u>2011</u> RM'000
Loss for the financial year	(2,943)	(1,223)
Net (loss)/gain on securities available-for-sale	-	-
Income tax relating to components of other comprehensive income	-	-
	<hr/>	<hr/>
OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR, NET OF TAX	-	-
	<hr/>	<hr/>
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	<u>(2,943)</u>	<u>(1,223)</u>

The accounting policies on pages 23 to 35 and the notes on pages 36 to 66 form an integral part of these financial statements.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<u>Note</u>	Share capital RM'000	<u>Distributable Accumulated losses</u> RM'000	<u>Total</u> RM'000
Balance as at 1 January 2011		1	(80)	(79)
Proceeds from shares issued	16	23,400	-	23,400
Total comprehensive loss for the financial year		-	(1,223)	(1,223)
Balance as at 31 December 2011		<u>23,401</u>	<u>(1,303)</u>	<u>22,098</u>
Balance as at 1 January 2012		23,401	(1,303)	22,098
Proceeds from shares issued	16	286,599	-	286,599
Total comprehensive loss for the financial year		-	(2,943)	(2,943)
Balance as at 31 December 2012		<u>310,000</u>	<u>(4,246)</u>	<u>305,754</u>

The accounting policies on pages 23 to 35 and the notes on pages 36 to 66 form an integral part of these financial statements.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<u>Note</u>	<u>2012</u> RM'000	<u>2011</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(2,943)	(1,223)
Adjustments for:			
Depreciation of plant and equipment		828	328
Amortisation of intangible assets		1,145	-
Interest income		(4,922)	-
Interest expense		344	-
		<hr/>	<hr/>
Operating loss before working capital changes		(5,548)	(895)
Increase in deposits and placements with financial institution		(91,308)	(10,000)
Decrease/(increase) in other assets		3,599	(3,862)
Increase in statutory deposits with Bank Negara Malaysia		(100)	-
Increase in deposits from customers		44,200	-
Increase in other liabilities		4,908	33
		<hr/>	<hr/>
Net cash used in operating activities		(44,249)	(14,724)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(4,936)	(1,643)
Purchase of intangible assets		(11,670)	-
Interest received		4,922	-
		<hr/>	<hr/>
Net cash used in investing activities		(11,684)	(1,643)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		286,599	23,400
Interest paid		(344)	-
		<hr/>	<hr/>
Net cash generated from financing activities		286,255	23,400
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE FINANCIAL YEAR			
		230,322	7,033
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR			
		7,037	4
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	4	<u>237,359</u>	<u>7,037</u>

The accounting policies on pages 23 to 35 and the notes on pages 36 to 66 form an integral part of these financial statements.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

1 CORPORATE INFORMATION

India International Bank (Malaysia) Berhad (“the Bank”) commenced commercial banking business on 11 July, 2012. The principal activities of the Bank are banking and related financial services.

The address of the registered office and principal place of operation of the Bank is at 15, Jalan Raja Chulan, Bangunan Yee Seng, 50200 Kuala Lumpur.

The Bank is a company limited by shares and is a licensed Bank, incorporated and domiciled in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with their resolution on 4 June 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

A BASIS OF PREPARATION

The financial statements for the financial year ended 31 December 2012 of the Bank have been prepared under the historical cost convention unless otherwise indicated in this summary of the significant accounting policies.

These financial statements of the Bank comply with the Malaysian Financial Reporting Standards (“MFRS”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Bank for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1 ‘First-time adoption of MFRS’. The Bank have consistently applied the same accounting policies in its opening MFRS statement of financial position at 1 January 2011 (transition date) and throughout all financial years presented, as if these policies had always been in effect. Based on the Bank’s assessment of the MFRS requirements, there is no significant impact of the transition to MFRS on the Bank’s reported financial position, financial performance and cash flows.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Bank’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective

The Bank will apply the new standards, amendments to standards and interpretations in the following periods:

- (i) Financial year beginning on/after 1 January 2013
 - MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.
 - The revised MFRS 127 “Separate financial statements” (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.
 - Amendment to MFRS 101 “Presentation of items of other comprehensive income” (effective from 1 July 2012) requires entities to separate items presented in ‘other comprehensive income’ (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.
 - Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.
 - Amendment to MFRS 7 “Financial instruments: Disclosures” (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A BASIS OF PREPARATION (CONTINUED)

Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (Continued)

(ii) Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132 “Financial instruments: Presentation” (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of ‘currently has a legally enforceable right of set-off’ that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(iii) Financial year beginning on/after 1 January 2015

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (OCI). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

The Bank has not finalised the impact of the above standards and is now in the midst of implementing the MFRS 139 collective assessment methodology and will complete this process prior to the release of the interim results for the financial period ending 30 September 2013.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances and short-term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

C FINANCIAL ASSETS

Financial assets are recognised in the statement of financial position when, and only when, the Bank has become a party to the contractual provisions of the instruments. The Bank determines the classification of its financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in income statement.

All regular purchases and sales of financial assets are recognised or de-recognised on the settlement date.

A financial asset is de-recognised where the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in income statement.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held-for-trading acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in income statement in the period in which the changes arise.

(ii) Available-for-sale financial assets

Available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity and are measured at fair value.

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except for impairment losses (see accounting policy Note D) and foreign exchange gains and losses on monetary assets.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C FINANCIAL ASSETS (CONTINUED)

(ii) Available-for-sale financial assets (continued)

The exchange differences on monetary assets are recognised in income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in income statement. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in income statement. Dividends income on available-for-sale equity instruments are recognised in income statement when the Bank's right to receive payments is established.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than those due to credit deterioration. Financial assets classified under this category are cash and short-term funds, deposits and placements with banks and other financial institutions and loans and advances.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method. The amortised cost of the financial asset is the amount at which the financial asset is measured at initial recognition, less principal repayment, plus or less the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment. Interest income is recognised as interest income in the income statement using effective interest method.

(iv) Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold the investment to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

Any sale or reclassification of a significant amount of investment securities held-to-maturity not close to their maturity would result in the reclassification of all securities held-to-maturity to investment securities available-for-sale, and prevent the Bank from reclassifying similar class of securities as investment securities held-to-maturity for the current and the following 2 financial years.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D IMPAIRMENT OF FINANCIAL ASSETS

(i) Assets carried at amortised cost

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Loans and advances

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loans and advances' carrying amount and the present value of estimated future cash flows (excluding credit losses that have not been incurred) discounted at the original effective interest rate.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(i) Assets carried at amortised cost (Continued)

Loans and advances (Continued)

The carrying amount of the loans and advances is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If the loans and advances has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Assets classified as available-for-sale

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to profit or loss, even though the securities have not been de-recognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on investments in equity instruments classified as available-for-sale recognised are not reversed in profit or loss subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the profit or loss if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E PLANT AND EQUIPMENT

All items of plant and equipment are initially recorded at cost. Subsequent to initial recognition, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Plant and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense is recognised in the profit and loss account. The depreciation is made at the following rates annually:

Office equipment and Computers	20%
Motor vehicles	20%
Renovation	20%

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the financial period the asset is de-recognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each reporting date.

F INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets reassessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Intangible assets of the Bank comprising computer software are amortised over their finite useful lives estimated at 5 years on a straight line basis.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Bank reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to that asset.

An impairment loss is recognised in the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss being recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

H PROVISIONS

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I FINANCIAL LIABILITIES

Financial liabilities are measured at amortised cost, except for trading liabilities and liabilities designated at fair value, which are held at fair value through profit or loss. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

(i) Other financial liabilities

The Bank's other financial liabilities include deposits from customers, deposits and placements of banks and other financial institutions and other liabilities.

Other financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

J FINANCIAL GUARANTEE CONTRACTS

In the ordinary course of business, the Bank gives financial guarantee, consisting letters of credits, guarantees and acceptances. A financial guarantee contract is a contract that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with MFRS 137 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less cumulative amortisation, where appropriate.

K RECOGNITION OF INTEREST INCOME, EXPENSES AND FEE AND OTHER INCOME

(i) Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest method applies the rate that exactly discounts estimated future cash receipts or payments through the effective life of the financial instruments to the net carrying amount of the financial assets or liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K RECOGNITION OF INTEREST INCOME, EXPENSES AND FEE AND OTHER INCOME
(CONTINUED)

(ii) Fee and other income

Fees and commissions are recognised as income when all conditions precedent are fulfilled.

Guarantee fees which are material are recognised as income based on a time apportionment method.

Brokerage fees are recognised as income based on inception of such transactions.

Dividends are recognised when the right to receive payment is established.

L EMPLOYEE BENEFITS

(i) Short-term benefits

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits are recognised as an expense in the period in which the associated services are rendered by employees of the Bank.

(ii) Defined contribution plans

The Bank's contributions to defined contribution plans are charged to income statement in the financial year to which they relate. Once the contributions have been paid, the Bank has no further payment obligations.

M OPERATING LEASE PAYMENT

Leases where the Bank does not assume substantially all the risk and rewards of the ownership are classified as operating leases and the leased assets are not recognised on the Bank's financial statements.

Payments made under operating leases are recognised in income statement on a straight line basis over the term of the lease.

N FOREIGN CURRENCIES

(i) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional and presentation currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N FOREIGN CURRENCIES (CONTINUED)

(ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in income statement within 'other income'. All other foreign exchange gains and losses are recognised in income statement within the same line item as the underlying that gives rise to the translation difference.

The principal exchange rates for every unit of foreign currency ruling at reporting date used are as follows:

	<u>31st December 2012</u>	<u>31st December 2011</u>
Indian Rupees	0.0558	0.0597
Singapore Dollars	2.5030	2.5018
United States Dollars	3.0583	3.1770
Hong Kong Dollars	0.3945	0.4089
British Pounds	4.9420	4.8962
Euro	4.0412	4.1118

O CURRENT AND DEFERRED TAX

Current tax expense is determined according to the tax laws of Malaysia and includes all taxes based upon the taxable profits for the financial year.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit and loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences or unused tax losses can be utilised

Deferred income tax related to fair value re-measurement of available-for-sale securities, which are charged or credited directly to equity via other comprehensive, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O CURRENT AND DEFERRED TAX (CONTINUED)

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires management to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates and judgements are based on the management's best knowledge of current events and actions, actual results may differ from these estimates.

In determining the carrying amounts of some assets and liabilities, the Bank makes assumptions of the effects of uncertain future events on those assets and liabilities at the statement of financial position date. The Bank estimates and assumptions are based on historical experiences and expectations of future events and are reviewed periodically. Revision to accounting estimates are recognised in the period in which the estimates is revised and in any future periods affected.

(a) Fair value of financial instruments

The degree of management judgement involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgement is necessary to estimate fair value. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk.

(b) Allowance for losses on loans, advances and financing

The Bank makes allowance for losses on loans, advances and financing based on assessment of recoverability. Whilst management is guided by the relevant BNM guidelines, management makes judgement on the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the net realisable value of the underlying collateral value, the viability of the customer's business model, the capacity to generate sufficient cash flows to service debt obligations and the aggregate amount and ranking of all other creditor claims.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

4	CASH AND SHORT-TERM FUNDS	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	Cash and balances with banks and other financial institutions	138,517	7,037	4
	Money at call and deposit placements maturing within one month	98,842	-	-
		<u>237,359</u>	<u>7,037</u>	<u>4</u>
5	DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	Licensed banks	<u>101,308</u>	<u>10,000</u>	<u>-</u>
6	FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	<u>At fair value</u>			
	Quoted Money market instruments:			
	Malaysian Government Securities	-	-	-
	Private debt securities	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>
7	FINANCIAL INVESTMENTS HELD-TO-MATURITY	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	<u>At amortised cost</u>			
	Money market instruments:			
	Malaysian Government Securities	-	-	-
	Private debt securities	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

8 LOANS, ADVANCES AND FINANCING

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
(i) By type			
Overdrafts	-	-	-
Term loans/financing			
- Housing loans/financing	-	-	-
- Other term loans/financing	-	-	-
Bills receivable	-	-	-
Revolving credit	-	-	-
Staff loans	-	-	-
Less : Unearned interest and income	-	-	-
	<u> </u>	<u> </u>	<u> </u>
	-	-	-
Less : Allowance for impaired loans and financing			
- Collective assessment allowance	-	-	-
- Individual assessment allowance	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Net loans, advances and financing	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
(ii) By type of customer			
Domestic business enterprises			
- Small medium enterprises	-	-	-
- Others	-	-	-
Domestic non-bank financial institutions	-	-	-
Individuals	-	-	-
Foreign entities	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Gross loans, advances and financing	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

8 LOANS, ADVANCES AND FINANCING (CONTINUED)

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
(iii) By interest rate sensitivity			
Fixed rate	-	-	-
Variable rate			
- BLR plus	-	-	-
- Cost plus	-	-	-
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(iv) By residual contractual maturity			
Maturity within one year	-	-	-
More than one year to three years	-	-	-
More than three years to five years	-	-	-
More than five years	-	-	-
	<hr/>	<hr/>	<hr/>
Gross loans, advances and financing	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(v) By geographical distribution			
Malaysia			
- Kuala Lumpur	-	-	-
- Penang	-	-	-
- Johor	-	-	-
- Perak	-	-	-
	<hr/>	<hr/>	<hr/>
Total	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
(vi) By sector			
Electricity, gas and water	-	-	-
Manufacturing	-	-	-
Construction	-	-	-
Wholesale and retail	-	-	-
Finance, insurance and business services	-	-	-
Mining and quarrying	-	-	-
Transport, storage and communication	-	-	-
Agriculture, hunting, forestry and fishing	-	-	-
Real estate	-	-	-
	<hr/>	<hr/>	<hr/>
Total	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company No.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

9 OTHER ASSETS

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000
Other receivables	-	2	3
Deposits	147	121	-
Prepayments	119	3,742	-
	<u>266</u>	<u>3,865</u>	<u>3</u>

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2) (c) of the Central Bank of Malaysia Act, 2009, the amounts of which are determined at set percentages of total eligible liabilities.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

11 PLANT AND EQUIPMENT

	<u>Office equipment</u> RM '000	<u>Computers</u> RM'000	<u>Motor vehicles</u> RM '000	<u>Office renovations</u> RM'000	<u>Total</u> RM'000
<u>At 31 December 2012</u>					
<u>Cost</u>					
At 1 January 2012	191	10	170	1,272	1,643
Additions	61	4,790	-	85	4,936
At 31 December 2012	<u>252</u>	<u>4,800</u>	<u>170</u>	<u>1,357</u>	<u>6,579</u>
<u>Accumulated depreciation</u>					
At 1 January 2012	38	2	34	254	328
Charge for the financial year	48	484	34	262	828
At 31 December 2012	<u>86</u>	<u>486</u>	<u>68</u>	<u>516</u>	<u>1,156</u>
Net book value	<u><u>166</u></u>	<u><u>4,314</u></u>	<u><u>102</u></u>	<u><u>841</u></u>	<u><u>5,423</u></u>
<u>At 31 December 2011</u>					
<u>Cost</u>					
At 1 January 2011	-	-	-	-	-
Additions	191	10	170	1,272	1,643
At 31 December 2011	<u>191</u>	<u>10</u>	<u>170</u>	<u>1,272</u>	<u>1,643</u>
<u>Accumulated depreciation</u>					
At 1 January 2011	-	-	-	-	-
Charge for the financial year	38	2	34	254	328
At 31 December 2011	<u>38</u>	<u>2</u>	<u>34</u>	<u>254</u>	<u>328</u>
Net book value	<u><u>153</u></u>	<u><u>8</u></u>	<u><u>136</u></u>	<u><u>1,018</u></u>	<u><u>1,315</u></u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

12	INTANGIBLE ASSETS	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	<u>Computer software:</u>			
	<u>Cost</u>			
	At 1 January	-	-	-
	Additions	11,670	-	-
	At 31 December	<u>11,670</u>	<u>-</u>	<u>-</u>
	<u>Accumulated amortisation</u>			
	At 1 January	-	-	-
	Amortisation for the financial year	1,145	-	-
	At 31 December	<u>1,145</u>	<u>-</u>	<u>-</u>
	Net carrying amount	<u>10,525</u>	<u>-</u>	<u>-</u>
13	DEPOSITS FROM CUSTOMERS	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
	(i) By type of deposits			
	Demand deposits	3,719	-	-
	Savings deposits	324	-	-
	Fixed deposits	40,157	-	-
		<u>44,200</u>	<u>-</u>	<u>-</u>
	(ii) Maturity structure of fixed deposits is as follows:			
	Due within six months	32,953	-	-
	Six months to one year	7,074	-	-
	One year to three years	130	-	-
		<u>40,157</u>	<u>-</u>	<u>-</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

13 DEPOSITS FROM CUSTOMERS (CONTINUED)

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
(iii) The deposits are sourced from the following types of customers:			
Business enterprises	42,568	-	-
Individuals	1,632	-	-
	<u>44,200</u>	<u>-</u>	<u>-</u>

14 OTHER LIABILITIES

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
Other payables	4,134	-	84
Accruals	893	119	2
	<u>5,027</u>	<u>119</u>	<u>86</u>

15 DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The deferred tax asset amount is not recognised as deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

The amount of unabsorbed capital allowances and unutilised tax losses of the Bank as at year end are as follows:

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Unutilised tax losses carried forward	-	-
Unabsorbed capital allowances carried forward	15,561	-
	<u>15,561</u>	<u>-</u>

Company No.

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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

16	SHARE CAPITAL	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
	<u>Authorised:</u>		
	50,000,000 ordinary shares of RM 10 each	500,000	500,000
	<u>Issued and fully paid:</u>		
	Balance as at beginning of the financial year	23,401	1
	Issued during the financial year	286,599	23,400
	Balance as at end of the financial year	<u>310,000</u>	<u>23,401</u>
17	INTEREST INCOME	<u>2012</u> RM'000	<u>2011</u> RM'000
	Money at call and deposit placements with financial institutions	<u>4,922</u>	<u>-</u>
18	INTEREST EXPENSE	<u>2012</u> RM'000	<u>2011</u> RM'000
	Deposits from customers	<u>344</u>	<u>-</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

19 OTHER OPERATING INCOME

	<u>2012</u> RM'000	<u>2011</u> RM'000
<u>Commission and fee income:</u>		
Commission	25	-
Service charges and fees	3	-
	<u>28</u>	<u>-</u>
<u>Other income:</u>		
Foreign exchange gain/(loss)	12	-
	<u>40</u>	<u>-</u>
Total	<u>40</u>	<u>-</u>

20 OTHER OPERATING EXPENSES

	<u>2012</u> RM'000	<u>2011</u> RM'000
Personnel costs (Note a)	1,755	271
Marketing expenses (Note b)	157	-
Establishments costs (Note c)	4,355	590
Administration and general expenses (Note d)	1,294	362
	<u>7,561</u>	<u>1,223</u>
(a) <u>Personnel costs:</u>		
- Salaries and allowances	1,232	156
- Pension fund contributions	98	5
- Other staff costs	425	110
	<u>1,755</u>	<u>271</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

20 OTHER OPERATING EXPENSES (CONTINUED)

	<u>2012</u> RM'000	<u>2011</u> RM'000
(b) <u>Marketing expenses:</u>		
- Advertising and promotion	157	-
	<u>157</u>	<u>-</u>
(c) <u>Establishments costs:</u>		
- Depreciation of plant and equipment	828	328
- Amortisation of intangible assets	1,145	-
- Rental - Office premises	296	262
- Rental - Data centre and data recovery sites	275	-
- Repair and maintenance	83	-
- Information technology expenses	1,074	-
- Telecommunication charges	600	-
- Others	54	-
	<u>4,355</u>	<u>590</u>
(d) <u>Administration and general expenses:</u>		
- Legal and professional fees	433	7
- Auditor's fees	80	13
- Directors' fees	13	-
- Transport and travelling	45	-
- Others	723	342
	<u>1,294</u>	<u>362</u>

The above expenditure includes the following statutory disclosure:-

	<u>2012</u> RM'000	<u>2011</u> RM'000
Directors' remuneration including benefits-in-kind	225	147
Rental of premises	296	261
Auditors' remuneration		
- Statutory audit	80	13
- Others	-	-
	<u>225</u>	<u>147</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

20 OTHER OPERATING EXPENSES (CONTINUED)

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel include all the directors of the Bank and certain senior management personnel of the Bank.

The remuneration of certain management personnel who are part of key management personnel included in the income statement was as follows:

	<u>2012</u> RM'000	<u>2011</u> RM'000
Salary and other remuneration	786	104
Defined contribution plan	30	2
Benefits-in-kind	202	41
	<u>1,018</u>	<u>147</u>

21 REMUNERATION OF CHIEF EXECUTIVE OFFICER ('CEO') AND DIRECTORS

Aggregate remuneration of the CEO and all Directors during the financial year are as follows:-

	<u>2012</u> RM'000	<u>2011</u> RM'000
<u>Chief Executive Officer/Managing Director</u>		
Kalanjiam Purushothman Vairavan	212	147
<u>Non-Executive Directors</u>		
Mangalore Devadas Mallya	-	-
Mairpady Narendra	-	-
Banavar Anantharamaiah Prabhakar	-	-
Gopala Krishnan a/l G P Gopalan	5	-
Datuk Bhupatrai a/l Mansukhlal Premji	8	-
	<u>225</u>	<u>147</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

22 TAXATION

	<u>2012</u> RM'000	<u>2011</u> RM'000
Loss before tax	(2,943)	(1,223)
Malaysian income tax		
Tax charge at applicable tax rate of 25% (2011: 25%)	(736)	(305)
Non-deductible expenses	517	305
Unrecognised deferred tax assets	219	-
	<u> </u>	<u> </u>
Tax charge for the financial year	<u> </u>	<u> </u>

23 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

The commitments and contingencies constitute the following:

	<u>Principal amount</u> RM'000	<u>Positive fair value of derivate contracts</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk- weighted assets</u> RM'000
<u>31 December 2012</u>				
Direct credit substitutes	1,604	-	1,604	1,284
Transaction-related contingent items	-	-	-	-
Short-term self-liquidating trade-related contingencies	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	-	-	-	-
- Not exceeding one year	-	-	-	-
<u>Derivate financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	-	-	-	-
Interest rate related contracts:				
- Less than one year	-	-	-	-
- One year or less than five years	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>1,604</u>	<u>-</u>	<u>1,604</u>	<u>1,284</u>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

23 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	<u>Principal amount</u> RM'000	<u>Positive fair value of derivate contracts</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk- weighted assets</u> RM'000
<u>31 December 2011</u>				
Direct credit substitutes	-	-	-	-
Transaction-related contingent items	-	-	-	-
Short-term self-liquidating trade-related contingencies	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	-	-	-	-
- Not exceeding one year	-	-	-	-
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	-	-	-	-
Interest rate related contracts:				
- Less than one year	-	-	-	-
- One year or less than five years	-	-	-	-
Total	-	-	-	-

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

23 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	<u>Principal amount</u> RM'000	<u>Positive fair value of derivate contracts</u> RM'000	<u>Credit equivalent amount</u> RM'000	<u>Risk- weighted assets</u> RM'000
<u>1 January 2011</u>				
Direct credit substitutes	-	-	-	-
Transaction-related contingent items	-	-	-	-
Short-term self-liquidating trade-related contingencies	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:-				
- Exceeding one year	-	-	-	-
- Not exceeding one year	-	-	-	-
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- Less than one year	-	-	-	-
Interest rate related contracts:				
- Less than one year	-	-	-	-
- One year or less than five years	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The credit equivalent amount and risk-weighted amount are arrived at using the credit conversion factors as defined in Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework Standardised Approach (BASEL II).

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

24 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related parties and relationships

The related parties of, and their relationship with the Bank are as follows:

<u>Related parties</u>	<u>Relationship</u>
Bank of Baroda	Shareholder
Indian Overseas Bank	Shareholder
Andhra Bank	Shareholder
Bank of Baroda - New York Branch	Branch of the Shareholder
Bank of Baroda - Mumbai Branch	Branch of the Shareholder
Bank of Baroda - Brussels Branch	Branch of the Shareholder
Bank of Baroda - London Branch	Branch of the Shareholder
Indian Overseas Bank - Chennai Branch	Branch of the Shareholder
Indian Overseas Bank - Singapore Branch	Branch of the Shareholder
Andhra Bank - Mumbai Branch	Branch of the Shareholder

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel include all the Directors of the Bank and certain senior management personnel of the Bank.

(b) Significant related party balances

	<u>2012</u> RM'000	<u>2011</u> RM'000
<u>Amounts due from:</u>		
Bank balances and short-term funds with:		
- Bank of Baroda	100	-
- Indian Overseas Bank	23	-
- Andhra Bank	2	-
	<hr/>	<hr/>
Total	125	-
	<hr/> <hr/>	<hr/> <hr/>

All the transactions above have been entered at agreed terms between the two parties.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

24 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

The remuneration of certain management personnel who are part of key management personnel included in the income statement was as follows:

	<u>2012</u> RM'000	<u>2011</u> RM'000
Salary and other remuneration	786	104
Defined contribution plan	30	2
Benefits-in-kind	202	41
	<u>1,018</u>	<u>147</u>

25 CAPITAL MANAGEMENT

The objective of the Bank's capital management policy is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet its regulatory requirements and market expectations.

The Bank's capital management process involves a careful analysis of the capital requirements to support business growth. The Bank regularly assesses its capital adequacy under various scenarios on a forward looking perspective for the purpose of capital planning and management to ensure that the capital is at the level suitable for the prevailing business conditions.

The Bank's capital requirements and capital adequacy ratios, in accordance with BNM's revised Risk-Weighted Capital Adequacy Framework (RWCAF): Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk are disclosed in Note 26.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

26 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

The capital adequacy ratio of the Bank are as follows:

	<u>2012</u> RM'000	<u>2011</u> RM'000
<u>Tier 1 capital</u>		
Paid-up share capital	310,000	23,401
Accumulated losses	(4,246)	(1,303)
Less: Deferred tax assets	-	-
	<hr/>	<hr/>
Total Tier 1 capital	305,754	22,098
	<hr/>	<hr/>
<u>Tier 2 capital</u>		
Collective impairment allowance	-	-
	<hr/>	<hr/>
Total Tier 2 capital	-	-
	<hr/>	<hr/>
Total capital	305,754	22,098
Less: Investment in subsidiaries	-	-
	<hr/>	<hr/>
Capital base	305,754	22,098
	<hr/> <hr/>	<hr/> <hr/>
Capital ratios		
Core capital ratio	312.9%	-
Risk-weighted capital ratio	312.9%	-

The Bank does not have any innovative, non-innovative, complex or hybrid capital instruments. The breakdown of risk-weighted assets by major category is as follows:

	<u>2012</u> RM'000	<u>2011</u> RM'000
Credit risk	93,756	-
Market risk	-	-
Operational risk	3,953	-
	<hr/>	<hr/>
Total risk-weighted assets	97,709	-
	<hr/> <hr/>	<hr/> <hr/>

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

26 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2012:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
<u>On-balance sheet exposures</u>				
Sovereigns/central banks	3,411	3,411	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	334,399	334,399	72,972	5,838
Corporates	-	-	-	-
Residential mortgages	-	-	-	-
Higher risk assets	-	-	-	-
Other assets	17,171	17,171	16,213	1,297
Defaulted exposures	-	-	-	-
Total on-balance sheet exposures	354,981	354,981	89,185	7,135
<u>Off-balance sheet exposures</u>				
Over-the-counter ('OTC') derivatives	-	-	-	-
Credit derivatives	1,604	1,604	1,284	103
Off balance sheet exposures other than OTC derivatives or credit derivatives	-	-	-	-
Total off-balance sheet exposures	1,604	1,604	1,284	103
Total on and off-balance sheet exposures	356,585	356,585	90,469	7,238
	<u>Long position</u>	<u>Short position</u>		
(b) Market risk				
Interest rate risk	-	-	-	-
Foreign currency risk	-	-	-	-
(c) Operational risk			8,431	674
Total risk weighted assets and capital requirements			98,900	7,912

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

26 CAPITAL ADEQUACY (CONTINUED)

(b) The breakdown of the Bank's credit risk exposures by risk weights is as follows:

	Exposures after netting and credit risk mitigation (RM'000)									
	Sovereigns/ Central banks	Public Sector Entities	Banks, Development Financial Institutions and MDBs	Corporates	Residential mortgages	Higher risk assets	Other assets	Equity	Total exposures after netting and credit risk mitigation	Total risk weighted assets
<u>31.12.2012</u>										
<u>Risk weighted</u>										
0%	3,411	-	-	120	-	-	957	-	4,488	-
20%	-	-	314,092	-	-	-	-	-	314,092	62,818
50%	-	-	20,307	400	-	-	-	-	20,707	10,354
100%	-	-	-	1,084	-	-	16,213	-	17,297	17,297
Total exposures	3,411	-	334,399	1,604	-	-	17,170	-	356,584	90,469
Risk weighted assets by exposure	-	-	72,972	1,284	-	-	16,213	-	-	90,469
Average risk weight	0.00%	0.00%	21.82%	80.05%	0.00%	0.00%	94.43%	0.00%	-	-
Deduction from capital base	-	-	-	-	-	-	-	-	-	-

Company No.

911666

D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

27 LEASE COMMITMENTS

The Bank has lease commitments in respect of rented premises which is classified as operating leases.

A summary of the non-cancellable long-term lease commitments is as follows:-

	<u>2012</u> RM'000	<u>2011</u> RM'000
Within a year	296	296
After one year but less than 5 years	25	321
	<u>321</u>	<u>617</u>

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2012:

	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>31 December 2012</u>									
<u>Assets</u>									
Cash and balances with banks and other financial institutions	138,517	-	-	-	-	-	-	138,517	3.00
Money at call and deposit placements maturing within one month	98,842	-	-	-	-	-	-	98,842	3.18
Deposits and placements with banks and other financial institutions	-	95,274	6,034	-	-	-	-	101,308	3.19
Financial investments available-for-sale	-	-	-	-	-	-	-	-	-
Financial investments held-to-maturity	-	-	-	-	-	-	-	-	-
Loans, advances and financing	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	266	-	266	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	100	-	100	-
Plant and equipment	-	-	-	-	-	5,423	-	5,423	-
Intangible assets	-	-	-	-	-	10,525	-	10,525	-
Total assets	237,359	95,274	6,034	-	-	16,314	-	354,981	

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK (CONTINUED)

	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>31 December 2012</u>									
<u>Liabilities</u>									
Deposits from customers	4,063	32,933	7,074	130	-	-	-	44,200	3.00
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	5,027	-	5,027	-
Total liabilities	<u>4,063</u>	<u>32,933</u>	<u>7,074</u>	<u>130</u>	<u>-</u>	<u>5,027</u>	<u>-</u>	<u>49,227</u>	
On balance sheet-interest rate gap	<u>233,296</u>	<u>62,341</u>	<u>(1,040)</u>	<u>(130)</u>	<u>-</u>	<u>11,287</u>	<u>-</u>	<u>305,754</u>	

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK (CONTINUED)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 31 December 2011:

	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>31 December 2011</u>									
<u>Assets</u>									
Cash and short-term funds	7,037	-	-	-	-	-	-	7,037	-
Deposits and placements with banks and other financial institutions	-	10,000	-	-	-	-	-	10,000	2.51
Financial investments available-for-sale	-	-	-	-	-	-	-	-	-
Financial investments held-to-maturity	-	-	-	-	-	-	-	-	-
Loans, advances and financing	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	3,865	-	3,865	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-
Plant and equipment	-	-	-	-	-	1,315	-	1,315	-
Intangible assets	-	-	-	-	-	-	-	-	-
Total assets	7,037	10,000	-	-	-	5,180	-	22,217	

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK (CONTINUED)

	Non-trading book						Trading book	Total	Effective interest rate %
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non- interest sensitive			
<u>31 December 2011</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>Liabilities</u>									
Deposits from customers	-	-	-	-	-	-	-	-	-
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	119	-	119	-
Total liabilities	-	-	-	-	-	119	-	119	
On balance sheet-interest rate gap	7,037	10,000	-	-	-	5,061	-	22,098	

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK (CONTINUED)

The following table represents the Bank's carrying assets and liabilities at carrying amounts as at 1 January 2011:

1 January 2011	Non-trading book						Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<u>Assets</u>									
Cash and short-term funds	4	-	-	-	-	-	-	4	-
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	-
Financial investments available-for-sale	-	-	-	-	-	-	-	-	-
Financial investments held-to-maturity	-	-	-	-	-	-	-	-	-
Loans, advances and financing	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	3	-	3	-
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	-	-	-
Plant and equipment	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-
Total assets	4	-	-	-	-	3	-	7	

Company No.

911666 D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

28 INTEREST RATE RISK (CONTINUED)

	Non-trading book						Trading book	Total	Effective interest rate %
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non- interest sensitive			
<u>1 January 2011</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>Liabilities</u>									
Deposits from customers	-	-	-	-	-	-	-	-	-
Deposits and placements of banks and other financial institutions	-	-	-	-	-	-	-	-	-
Bills and acceptances payable	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	86	-	86	-
Total liabilities	-	-	-	-	-	86	-	86	
On balance sheet-interest rate gap	4	-	-	-	-	(83)	-	(79)	

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

29 RISK MANAGEMENT

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Bank's strategies and risk appetite, and there is an appropriate balance between risk and reward in order to maximise shareholder returns.

The Bank's risk management policies define the Bank's risk appetite, set the limits and controls within which the Bank can operate, and reflect the requirements of regulatory authorities.

(a) Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. Credit risk arises both in the Bank's direct lending operations and in its funding, investment and trading activities, where counterparties have repayment or other obligations of the Bank.

Policies for managing credit risk are as per the Bank's Risk Management Policy are reviewed and approved by the Board on an annual basis. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adopted to different risk environment and business goals including an internal grading system. Credit analysis includes review of facility details, financial and risk analysis.

The credit risk policy sets out, among other things, the credit risk rating system and associated parameter estimates and the delegation of authority for granting credit. It forms an integral part of enterprise-wide policies and procedures that encompass governance, risk management and control structure. The Bank's credit risk rating system is designed to support the determination of key credit risk parameter estimates which ensure credit and transaction risk.

(i) Credit quality of non-retail exposures

Credit decisions are made based upon an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include: the borrower's management; the borrower's current and projected financial results and credit statistics; the industry in which the borrower operates; economic trends; and geopolitical risk. The Bank also reviewed the credit quality of the credit portfolio across the organisation on a regular basis to assess whether economic trends or specific events may affect the performance of the portfolio.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

29 **RISK MANAGEMENT (CONTINUED)**

(b) **Liquidity risk**

Liquidity refers to the ability to meet financial obligations and to fund the growth of assets. Liquidity risk is the risk of not being able to obtain funds at a reasonable price within a reasonable time period to meet obligations as and when they fall due.

The primary tool used for monitoring liquidity is the Bank Negara's New Liquidity Framework ("NLF"). The NLF is further supplemented with the internal liquidity risk management policies. These policies ensure that the liquidity surplus are within the limit.

The key elements of the Bank's liquidity risk management framework include:-

- (i) Liquidity risk measurement and management limits, including limits on maximum net cash outflow by currency over specified short-term horizons;
- (ii) Sufficient holdings of liquidity assets to support its operations, which can generally be sold or pledged to meet the Bank's obligations; and
- (iii) Liquidity contingency planning.

(c) **Market risk**

Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, market prices and volatilities that arise from the Bank's funding, investment and trading activities.

Market risk arising from trading activities is controlled by marking-to-market the trading positions against their predetermined market risk limits.

The primary categories of market risk for the bank are:-

(i) **Interest rate risk**

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate exposures in individual currencies are controlled by gap limits. The potential reduction in net interest income from an unfavourable interest rate movement of +/- 50 basis points is prepared and reviewed regularly.

The effect of interest rate changes on the market value of investments are monitored closely and mark-to-market valuations are regularly reported to management.

(ii) **Foreign currency exchange risk**

Foreign currency exchange risk refers to adverse exchange rate movements on foreign currency positions taken from time to time. Open positions in foreign currency transactions are monitored against predetermined position limits and cut-loss limits.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

29 RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Sensitivity analysis assesses the effect of changes in interest rates on current earning and on the economic value of assets and liabilities.

Gap analysis is used to assess the interest rate sensitivity of the Bank's operations. Under gap analysis, interest rate-sensitive assets, liabilities and derivative instruments are assigned to defined time periods, on the earlier of contractual repricing or maturity dates.

Interest rate risk management

The following table shows the impact on Net Interest income and Economic Value of Equity based on a 100 basis points (bps) parallel shift in interest rates at the beginning of the financial year from 1 January for a period of 12 months as follows:-

	<u>2012</u> RM'000 +/- 100 bps	<u>2011</u> RM'000 +/- 100 bps
<u>Movement in basis points</u>		
Effect on Net Interest Income	1,552	-
Effect on Economic Value of Equity	221	-
	<u> </u>	<u> </u>

As at the reporting date, if interest rate increases/decreases by 100 bps with all the other variables held constant, the Bank's Net Interest Income and Economic Value of Equity would have an impact of RM1.55 million and RM221,000 respectively for year 2012 and negligible impact for year 2011. The assumed movement in basis points for interest rate sensitivity analysis is based on the current observed market environment.

Interest rate risk

The Bank actively manages interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Bank's funding and investment activities is managed in accordance with Board-approved policies and limits, which are designed to control the risk to income and economic value of shareholder's equity. The income limit measures the effect of a specified shift in interest rates on the Bank's annual net income, while the economic value limit measures the impact of a specified change in interest rates on the present value of the bank's net assets. Interest rate exposures of individual currencies are also controlled by gap limits

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

29 RISK MANAGEMENT (CONTINUED)

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behavior and systems, or from external events. Operational risk is inherent in each of the Bank's business and key support activities can manifest itself in various ways. These include breakdowns, error, business interruptions and inappropriate behavior of employees, and can potentially result in financial losses and other damage to the Bank.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risk have been developed as an important part of the Bank's risk management culture. They include established policies and procedures, internal controls and procedures as well as maintaining back-up procedures for key activities, undertaking contingency planning, regular organisation review and through enforcement of the Bank's guidelines for Business Conduct. These are supported by an independent review by Internal Audit.

30 SEGMENT INFORMATION

There is no segmental information as the Bank only has one reportable segment, which is its banking operation in Malaysia.

31 SUBSEQUENT EVENTS

There were no material events subsequent to the statement of financial position date that require disclosure or adjustment to the unaudited condensed interim financial statements.

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

32 TRANSITION FROM FRS TO MFRS

The effect of the Bank's transition to MFRSs, described in Note 2, is summarised as follows:

(i) MFRS1 mandatory exceptions

(a) MFRS estimates

MFRS estimates as at transition date are consistent with the estimates as at the same date made in conformity with FRS.

(b) De-recognition of financial assets and liabilities

For all non-derivative financial assets and liabilities de-recognised before the transition date, MFRS 139 de-recognition requirements can be applied prospectively from the transition date.

(ii) MFRS1 exemption options

(a) Extinguishing financial liabilities with equity instruments

The Bank has applied the transitional provisions in IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" as permitted by MFRS 1.

(iii) Explanation of transition from FRSs to MFRs

MFRS 1 requires an entity to reconcile equity, total comprehensive income and cash flows for prior periods.

The transition from FRS to MFRS has had no effect on the reconciliation of equity and reconciliation of total comprehensive income of the Bank and on the reported cash flows generated by the Bank.

Company No.

911666	D
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INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Kalanjiam Purushothman Vairavan, Datuk Bhupatrai M Premji and Mairpady Narendra, being three of the Directors of India International Bank (Malaysia) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 18 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2012 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 4 June 2013.

KALANJIAM PURUSHOTHMAN VAIRAVAN
DIRECTOR

DATUK BHUPATRAI M PREMJI
DIRECTOR

MAIRPADY NARENDRA
DIRECTOR

Kuala Lumpur
4 June 2013

Company No.

911666

D

INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

**STATUTORY DECLARATION
PURSUANT TO SETION 169(16) OF THE COMPANIES ACT, 1965**

I, Kalanjiam Purushothman Vairavan, being the Director primarily responsible for the financial management of India International Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the financial statements set out on pages 18 to 66 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**KALANJIAM PURUSHOTHMAN VAIRAVAN
DIRECTOR**

Subscribed and solemnly declared by the above named Kalanjiam Purushothman Vairavan at Kuala Lumpur in Malaysia before me, on 4 June 2013.

COMMISSIONER FOR OATHS

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD**
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of India International Bank (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2012 of the Bank, and income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 66.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of the financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2012 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

*PricewaterhouseCoopers (AF 1146), Chartered Accountants,
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
OF INDIA INTERNATIONAL BANK (MALAYSIA) BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company No. 911666 D)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

1. As stated in Note 2 to the financial statements, the Bank adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the income statement, statements of comprehensive income, statements of changes in equity and statements of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Bank for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.
2. This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/14 (J))
Chartered Accountant

Kuala Lumpur
4 June 2013